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SIPDIS

SENSITIVE

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SUBJECT: Jordan and Israel Seeking EU "QIZ" Arrangement

REF: PARIS CABLE; B. 02 AMMAN 2371

SENSITIVE BUT UNCLASSIFIED.

1. (sbu) Summary. Jordan and Israel are working together to ask the EU for a special "QIZ-like" arrangement that will allow duty-free access to the European market for goods produced in Jordan with Israeli content. This effort, which the Jordanians say has high-level European and Israeli political backing, is part of a Jordanian strategy to grow out of its defunct "special relationship" with Iraq. Appropriate U.S. support with the EU could help move the process along, recognizing that this is -- refreshingly -- a Jordanian-Israeli project. End Summary.

JORDANIANS/ISRAELIS PITCH "QIZ" PLAN TO EU

2. (sbu) Jordanian and Israeli trade officials met jointly with EU officials in Brussels in late August to pitch a "Qualifying Industrial Zone (QIZ)" arrangement between Jordan, Israel and the European Union. According to Jordanian trade officials, External Relations Commissioner Chris Patten is the political force behind the idea -- originally discussed at a Euromed trade ministerial in Palermo in July -- and Trade Commissioner Lamy is also a strong backer. Former Jordanian Trade Minister Salah al-Bashir and Israeli Deputy PM Ehud Olmert agreed to pursue the initiative during their meeting at the Dead Sea World Economic Forum in June. The concept was supported by French trade minister Loos during an August visit to Amman.

3. (sbu) Trade Minister DG Amer al-Hadidi said the concept he and his Israeli Trade Ministry counterpart Gaby Bar proposed to an EU Commission Trade Directorate team is modeled on the U.S. QIZ initiative. That is, products with cumulated Jordanian and Israeli content above a certain threshold would have duty free access to the European market. He said this presented some conceptual problems for the EU, which does not favor special "zones" and whose complex rules of origin make such cumulation arrangements difficult. Nevertheless, the group agreed to meet again October 8, with a goal of announcing an arrangement in December.

STRATEGY TO ADJUST TO END OF "SPECIAL" IRAQ RELATIONSHIP

4. (sbu) Trade Minister Mohamed Abu Hammour told ECON/C that Israel is completely on board and that Jordan would appreciate U.S. support with the Europeans. He said the initiative was part of a strategy to forge agreements that open new markets to Jordanian manufacturers. This would help smooth Jordan's economic adjustment to the end of its privileged trade and oil relationship with Iraq. Jordan is also pursuing, he said, free trade agreements with Turkey, Singapore, and other promising new markets. Also driving efforts to open new markets is a desire to prepare for the end of the WTO Multi-Fiber Agreement in 2005, which could slow growth of QIZ garment exports to the United States.

5. (sbu) Jordan's woefully imbalanced trade with the EU (imports of \$1.5 billion from the EU in 2002 versus exports of \$63 million) is a perennial source of frustration for Jordanian officials. An EU Association Agreement that came into force in May 2002 is not expected to redress the balance. The rules of origin requirements are complex and difficult to satisfy, and cumulating origin with other countries in the region, including those that also have Association Agreements, is practically impossible (ref b). Using strong language, Deputy Prime Minister Halaiqa was quoted in the press September 16 as saying the EU agreement does "not serve the national economy nor is it a free trade agreement in the full sense."

16. (sbu) Jordan-Israel trade is thriving (\$262 million in 2002, compared to \$41 million in 1997). This growing relationship makes cumulating with Israeli value-added an attractive opportunity for Jordanian exporters, as the success of the U.S. QIZ arrangement has demonstrated. According to al-Hadidi, the Europeans had offered to allow cumulation of origin among "partner" countries that had signed free trade agreements among themselves. The Jordanians explained that the current political situation made it impossible to sign an FTA with Israel, nonetheless they hoped the Europeans would take into account the thriving economic relationship and support a QIZ-like initiative as a way station.

COMMENT: U.S. SUPPORT SHOULD AFFIRM REGIONAL OWNERSHIP

17. (sbu) Negotiating trade agreements that will allow exports, particularly of manufactured goods, to grow and diversify is part of an increasingly coherent Jordanian strategy to reduce the economy's reliance on foreign cash aid and politically-fragile "special relationships" like the one with Iraq that came to an abrupt end in March. The U.S. experience has shown the potential of Jordanian-Israeli economic collaboration. In addition to creating income and jobs, the QIZs are building a political constituency for peace and trade. While USEU and Embassy Tel Aviv may want to find out more, it could be helpful, as Minister Abu Hammour suggested, for the United States to lend its support to this initiative. We should encourage the Europeans to find a pragmatic way around their rules and protectionist tendencies that will spur regional economic interaction, growth, and job creation.

18. (sbu) It is significant that Jordanians and Israelis are jointly taking the lead. This shows the increasing maturity of their relationship. It is also a departure from past Jordanian practice of coming to the United States to fix their problems, without first seeing what they do for themselves. We will want to couch our support in a way that affirms Jordanian and Israeli ownership of this project.

19. (sbu) Background on the QIZ initiative can be found at <http://usembassy-amman.org.jo/QIIZ.htm>.
GNEHM